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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 CIAE-00 PM-05 H-01 INR-10

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R 220508Z AUG 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 0457

INFO AMEMBASSY JAKARTA

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USADB

FOR NAC AGENCIES

EO 11652:N/A

TAGS: EAID, EFIN, ADB, ID

SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE LOAN AND

- GRANT (INDONESIA)

SUMMARY: ADB MANAGEMENT IS PROPOSING \$1.3 MILLION ORDINARY CAPITAL LOAN AND \$150,000 TECHNICAL ASSISTANCE (TA) GRANT TO FINANCE NECESSARY STUDIES AND DESIGNS FOR EXPANSION AND REHABILITATION OF SEVEN AIRPORTS IN INDONESIA. THE PROJECT WILL BE UNDERTAKEN IN TWO PARTS: PART I WILL CONSIST OF A FEASIBILITY STUDY INVOLVING A REVIEW OF ALL EARLIER REPORTS AND STUDIES ON DOMESTIC AIRPORTS IN THE COUNTRY; PREPARATION OF A TRAFFIC FORECAST UP TO YEAR 2000; AND IDENTIFICATION OF IMPROVEMENTS NEEDED TO HANDLE MEDIUM TERM (5 YEARS) TRAFFIC REQUIREMENTS. PART II WILL BE UNDERTAKEN AFTER SATISFACTORY COMPLETION OF PART I, AND WILL CONSIST OF DETAILED MASTER PLANNING AND PRELIMINARY ENGINEERING DESIGNS. ALSO TO BE COVERED UNDER PART II WILL

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BE A REVIEW OF A) CURRENT FINANCIAL MANAGEMENT AND ACCOUNTING PRACTICES OF THE DIRECTORATE GENERAL OF AIR COMMUNICATIONS (DGAC) AND B) INSTITUTIONAL ASPECTS OF THE DOMESTIC CIVIL AVIATION SECTOR, INCLUDING ESTABLISHMENT OF MORE AIRPORT AUTHORITIES. GIVEN INDONESIA'S TRANSPORTATION AND COMMUNICATION REQUIREMENTS, USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC R79-78 POUCHED ADDRESSEES AUGUST 15. PROPOSED TA LOAN AND GRANT SCHEDULED FOR BOARD CONSIDERATION SEPTEMBER 7.

2. THE PROPOSED FINANCING WILL MEET THE FOREIGN EXCHANGE COSTS OF THE PROJECT THROUGH A) A TECHNICAL ASSISTANCE LOAN AMOUNTING TO \$1.3 MILLION FROM THE BANK'S ORDINARY CAPITAL RESOURCES AND B) A TA GRANT OF \$150,000 TO MEET PART OF THE COST OF THE FEASIBILITY STUDY. THE FOREIGN EXCHANGE COMPONENT COVERS THE REMUNERATION OF FOREIGN CONSULTANTS, INTERNATIONAL TRAVEL AND MISCELLANEOUS COSTS PLUS A 15 PERCENT ALLOWANCE FOR CONTINGENCIES. THE BORROWER WOULD BE REPUBLIC OF INDONESIA, AND THE EXECUTING AGENCY THE DIRECTORATE GENERAL OF AIR COMMUNICATIONS (DGAC). THE PROPOSED TA LOAN WOULD HAVE AN AMORTIZATION PERIOD OF TEN YEARS WITH A GRACE PERIOD OF TWO YEARS AND WILL NOT CARRY ANY COMMITMENT CHARGE. TOTAL COST OF THE PROJECT IS \$2.29 MILLION. LOCAL CURRENCY REQUIREMENT OF \$890,000 WILL BE MADE AVAILABLE BY THE GOVERNMENT ON A TIMELY BASIS.

3. AIR TRANSPORT AND SHIPPING PLAY IMPORTANT ROLES IN INDONESIA'S FOREIGN AND DOMESTIC TRADE AS WELL AS IN THE MOVEMENT OF PASSENGERS. BECAUSE OF THE LARGE DISTANCES BETWEEN THE ISLANDS AND THE DEFICIENCIES IN THE TRANSPORT LIMITED OFFICIAL USE

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INFRASTRUCTURE IN CERTAIN AREAS, AIR TRANSPORTATION HAS A CRUCIAL FUNCTION AND IN THE LAST DECADE HAS BEEN DEVELOPING RAPIDLY AS THE MODE FOR THE FAST MOVEMENT OF PASSENGERS AND HIGH-VALUE CARGO. SCHEDULED AIR SERVICES LINK THE PRINCIPAL ISLANDS AND CENTERS OF POPULATION, AND RURAL SERVICES FROM THE PRINCIPAL CITIES ARE PROVIDED BY "PIONEER" FLIGHTS, I.E., SMALL AIRCRAFT OPERATING ON AN INFREQUENT SCHEDULE. AIR SERVICES ENSURE THAT GOVERNMENTAL, BUSINESS AND TECHNOLOGICAL EXPERTISE NEEDED TO ACCELERATE DEVELOPMENT IS RAPIDLY AVAILABLE, AND ALSO STIMULATE TRADE, BUSINESS AND TOURIST TRAFFIC.

4. THE GOVERNMENT IS ATTEMPTING TO CREATE A DEPENDABLE AND SAFE AIR TRANSPORTATION SYSTEM AT A REASONABLE COST TO THE USERS. FOR THIS, A PROGRAM FOR THE SYSTEMATIC, LONG-TERM DEVELOPMENT OF PRIORITY DOMESTIC AIRPORTS IS BEING PLANNED. ATTENTION IS ALSO BEING GIVEN TO IMPROVING ACCESS TO COMMUNITIES IN REMOTE AREAS NOT EASILY ACCESSIBLE BY LAND THROUGH EXPANSION OF THE "PIONEER" AIR SERVICES. THE PROPOSED TECHNICAL ASSISTANCE WILL FACILITATE THE DEVELOPMENT OF SUCH A PROGRAM, WHICH IS ACCORDED HIGH PRIORITY BY THE GOVERNMENT.

5. DEFICIENCIES AT THE DOMESTIC AIRPORTS INCLUDE OBSTRUCTIONS IN APPROACHES TO RUNWAYS NECESSITATING RAPID CLIMB AFTER TAKE-OFF, RUNWAYS TOO SHORT OR TOO WEAK TO CATER TO FULLY-LOADED AIRCRAFT, OBSTRUCTIONS WITHIN THE CLEARED STRIP WIDTH RECOMMENDED BY THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO), INADEQUATE PASSENGER TERMINAL BUILDINGS TO CATER TO PEAK-HOUR FLOWS AND INADEQUATE CARGO HANDLING FACILITIES. AIR TRAFFIC CONTROL AND COMMUNICATIONS SERVICES ARE HAMPERED BY A LACK OF TRAINED STAFF, INADEQUATE MAINTENANCE BY EXPERIENCED PERSONNEL, AND BY SHORTAGES OF SPARE PARTS AND TEST

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EQUIPMENT.

6. MOST OF THE DOMESTIC AIRPORTS, BUILT DURING OR SOON AFTER WORLD WAR II, WERE DESIGNED TO CATER TO PISTON-ENGINED AIRCRAFT. WITH THE GROWTH IN DOMESTIC AIR TRAFFIC AND ADVANCES IN AVIATION TECHNOLOGY, THE DOMESTIC AIRLINES HAVE SWITCHED TO LARGER AND MORE EFFICIENT TURBO-PROPELLER AND JET-POWERED AIRCRAFT. INDUSTRIALIZATION AND ECONOMIC ACTIVITY IN CERTAIN AREAS HAVE ALSO GENERATED ADDITIONAL DEMAND FOR AIR TRANSPORT. TO MEET THIS DEMAND, IMPROVEMENT OF THE FACILITIES AT THE DOMESTIC AIRPORTS IS REQUIRED, INCLUDING LENGTHENING AND STRENGTHENING OF RUNWAYS, EXTENSION OF TAXIWAY SYSTEMS AND AIRCRAFT PARKING APRONS, EXPANSION OF EXISTING OR CONSTRUCTION OF NEW PASSENGER AND CARGO TERMINALS AND INSTALLATION OF MORE MODERN COMMUNICATIONS, AIR TRAFFIC CONTROL (ATC), AND

NAVIGATIONAL AIR FACILITIES. AT SOME OF THE AIRPORTS
EXTENSION OF THE RUNWAYS AND OTHER FACILITIES IS CON-
STRAINED BY NATURAL OR MAN-MADE OBSTRUCTIONS, AND
CONSIDERATION WOULD HAVE TO BE GIVEN TO THE RELOCATION OF
SUCH AIRPORTS TO NEW SITES, IF THE FORECAST TRAFFIC
NECESSITATES EXPANDED FACILITIES.
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7. THE MAIN OBJECTIVES OF THE PROPOSED TECHNICAL
ASSISTANCE ARE TO CARRY OUT A FEASIBILITY STUDY FOR THE
IMPROVEMENT OF THE SEVEN AIRPORTS CONCERNED AND DETAILED
MASTER PLANNING AND ENGINEERING DESIGNS FOR THOSE AIRPORTS
IDENTIFIED UNDER THE STUDY AND AGREED BY GOVERNMENT AND
THE BANK AS WARRANTING UPGRADING. THE PROJECT WILL BE
CARRIED OUT IN TWO PARTS.

8. PART I COMPRISES A FEASIBILITY STUDY WHICH WILL INCLUDE
A REVIEW OF ALL PERTINENT DATA, UPDATING OF THE PHYSICAL
INVENTORIES OF THE SEVEN AIRPORTS, PREPARATION OF AIR
TRAFFIC FORECASTS AND PRELIMINARY MASTER PLANS FOR EACH
AIRPORT TO THE YEAR 2000, IDENTIFICATION OF THE FIRST-
STAGE IMPROVEMENTS REQUIRED TO MEET THE NEEDS OF THE
TRAFFIC FORECAST FOR THE MEDIUM-TERM -- FIVE TO TEN YEARS--
TOGETHER WITH COST ESTIMATES AND ECONOMIC EVALUATIONS FOR
EACH AIRPORT, AND A PRIORITY LISTING OF THE SEVEN AIRPORTS
FOR UPGRADING. THE BANK'S CONSULTANTS ARE TO LIAISE WITH
OTHER CONSULTANTS, FINANCED UNDER FRENCH BILATERAL
ASSISTANCE, WHO ARE PREPARING SIMILAR DESIGNS FOR SIX
OTHER DOMESTIC AIRPORTS.

9. THE SCOPE OF PART II COVERS: (I) PREPARATION OF
DETAILED MASTER PLANS TO THE YEAR 2000, AND PRELIMINARY
AND DETAILED ENGINEERING DESIGNS FOR THOSE AIRPORTS FOUND
ON OPERATIONAL, TECHNICAL AND ECONOMIC GROUNDS UNDER PART
TO WARRANT UPGRADING TO MEET THE NEEDS OF THE TRAFFIC FORE-
CAST FOR THE MEDIUM-TERM; (II) PREPARATION OF TENDER
DOCUMENTS, PREQUALIFICATION OF CONTRACTORS AND PREPARATION
OF DETAILED COST ESTIMATES AND ECONOMIC JUSTIFICATION OF
THE AGREED UPGRADING WORKS; (III) A REVIEW OF THE INSTITU-
TIONAL FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS OF THE
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DIRECTORATE GENERAL OF AIR COMMUNICATIONS AND AN ASSESS-
MENT OF THE FEASIBILITY OF CREATING AN AIRPORT AUTHORITY
(OR AUTHORITIES) TO ADMINISTER THE SEVEN AIRPORTS.

10. THE EXECUTING AGENCY FOR THE PROJECT WILL BE THE DGAC OF THE DEPARTMENT OF TRANSPORTATION, COMMUNICATIONS AND TOURIST (DOC). DGAC WILL HAVE OVERALL RESPONSIBILITY FOR THE IMPLEMENTATION OF THE PROJECT AND THE DIRECTORATE OF AIRPORT ENGINEERING (DAE) OF DGAC WILL BE RESPONSIBLE FOR THE DETAILED COORDINATION OF THE CONSULTANTS' WORK BOTH IN JAKARTA AND AT THE SEVEN AIRPORTS AND WILL ASSIGN FULL-TIME COUNTERPART STAFF -- FIVE FOR PART I AND TEN FOR PART II -- FOR LIAISON AND TRAINING WITH THE CONSULTANTS.

11. THE CURRENT STAFFING POSITION IN THE JAKARTA HEAD-QUARTERS OF DGAC IS CONSIDERED BY ADB STAFF TO BE GENERALL SATISFACTORY, BUT IN THE REGIONAL HEADQUARTERS AND AT THE VARIOUS AIRPORTS A SHORTAGE OF EXPERIENCED AND SKILLED PERSONNEL EXISTS, LEADING TO DELAYS IN IMPLEMENTATION OF NEW WORKS, REPAIRS AND MAINTENANCE OF EXISTING FACILITIES. ON THE ONE HAND, WORK RELATIONSHIPS AND REPORTING LINES ARE DELINEATED IN DGAC BY A MULTITUDE OF ORGANIZATIONAL CHARTS, RESULTING IN A RIGID AND COMPLEX SYSTEM. CONSEQUENTLY, THERE ARE IMPEDIMENTS IN DAY-TO-DAY OPERATIONS AND A LACK OF CLEARCUT DELINEATION OF DUTIES BETWEEN VARIOUS OFFICIALS. ONLY A VERY LIMITED NUMBER OF OPERATING REPORTS ARE SUBMITTED REGULARLY FROM THE REGIONS TO THE HEADQUARTERS, CONFINED TO SUMMARIES OF REVENUE, EXPENDITURE AND TRAFFIC DATA.

12. UNDER THE PROJECT, THE INSTITUTIONAL SYSTEM OF DGAC WILL BE REVIEWED. THE NEED FOR THE ESTABLISHMENT OF FURTHER AIRPORT AUTHORITIES ON THE LINES OF THE WELL RUN DOMESTIC ANGKASA PURA AUTHORITY WILL BE ASSESSED. THE CONSULTANTS WILL ALSO REVIEW THE DIVISION OF RESPONSIBILI-

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C O R R E C T E D C O P Y TEXT (PARA 12 GARBLED)

USADB

FOR NAC AGENCIES

TIES WITHIN DGAC FOR THE ADMINISTRATION, OPERATION, PLANNING AND MAINTENANCE OF THE DOMESTIC AIRPORTS BETWEEN THE NATIONAL HEADQUARTERS, REGIONAL HEADQUARTERS AND INDIVIDUAL AIRPORT MANAGERS, AND THE ARRANGEMENTS FOR THE RECRUITING, TRAINING AND POSTING OF DGAC STAFF. UNDER THE

TERMS OF REFERENCE FOR THE CONSULTANTS, AGREED WITH THE GOVERNMENT, THE CONSULTANTS ARE ALSO TO STUDY IN DETAIL THE FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM OF DGAC, INCLUDING, INTER ALIA, LANDING AND PARKING FEES, PASSENGER SERVICE CHARGES, TERMINAL AREA RENTALS, EN ROUTE NAVIGATIONAL AID AND OVERFLYING CHARGES. THE VALUATION OF THE ASSETS OF DGAC, THE WRITE-OFF POLICY, EXPENDITURES, NON-CASH ITEMS AND ROUTINE AND DEVELOPMENT BUDGETS. IN ALL THESE ASPECTS THE CONSULTANTS WILL MAKE DETAILED RECOMMENDATIONS ON MEANS BY WHICH THE SYSTEMS MIGHT BE IMPROVED, LIMITED OFFICIAL USE

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LEADING TO GREATER EFFICIENCY WITHIN DGAC AND MORE COST-EFFECTIVE PROCEDURES IN THE CIVIL AVIATION SUB-SECTOR.

13. PROCUREMENT OPPORTUNITIES: AS IS THE CASE IN PROJECTS WHERE ONLY CONSULTING SERVICES ARE NEEDED THE PROCUREMENT PROCESS FOR THIS TA HAS MOVED FASTER THAN IN THOSE TYPES OF LOANS WHERE EQUIPMENT OR OTHER GOODS MUST BE PURCHASED. PROJECT HAS BEEN LISTED IN THE MOI SINCE JULY 1977 AND THE BANK AND DGAC HAVE ALREADY PREPARED A TENTATIVE "SHORT LIST" OF THE TOP QUALIFIED FIRMS WHO WILL, IF PROJECT IS APPROVED, BE REQUESTED TO SUBMIT PROPOSALS. WE UNDERSTAND THAT ONE AMERICAN FIRM IS INCLUDED ON THE SHORT LISTS.

14. USADB COMMENT: WE BELIEVE THAT THERE IS STRONG JUSTIFICATION FOR THE PROPOSED TA LOAN AND GRANT AND RECOMMEND FAVORABLE NAC ACTION. THE LARGE SIZE AND ARCHIPELGIC NATURE OF INDONESIA NECESSITATE THE ESTABLISHMENT AND OPERATION OF A COMPREHENSIVE DOMESTIC AIR NETWORK. OF PARTICULAR IMPORTANCE IN THE PROPOSED PROJECT IS THE INSTITUTIONAL STRENGTHENING OF THE EXECUTING AGENCY. IN INDONESIA THE MOST INTRACTABLE PROBLEMS ARE USUALLY RELATED TO OPERATIONS AND MANAGEMENT, RATHER THAN CONSTRUCTION OF

THE PHYSICAL PLANT. IT MAY BE OF SOME INTEREST TO U.S.
FIRMS THAT THE BANK ESTIMATES THAT IF ALL SEVEN AIRPORTS
ARE UPGRADED THE TOTAL COST WOULD BE IN THE RANGE OF \$50 -
\$70 MILLION WITH A FOREIGN EXCHANGE COMPONENT OF \$25 - \$35
MILLION.

15. REQUEST AMEMBASSY JAKARTA COMMENTS FOR NAC AGENCIES,
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1972. EDMOND

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